KEYSTONE
AREA EDUCATION AGENCY 1

INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

JUNE 30, 2016

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KEYSTONE AREA EDUCATION AGENCY 1

OFFICIALS

NAME	*TITLE*	*TERM EXPIRES*
	Board of Directors	
Sandra Gassman	President	2017
Bill Withers	Vice-President	2017
Merle Gaber	Member	2017
Janet Kreitzer	Member	2017
Jerry Hilton	Member	2019
George Holland	Member	2019
Davis Johnson	Member	2019
Walter Pregler	Member	2019
Sue Updegraff	Member	2019
	Agency	
Patrick Heiderscheit	Administrator	
Julie Tschirgi	Board Secretary	
Audie Baumgartner	Business Manager and Treasurer	Indefinite

SCHNURR & COMPANY, LLP
Certified Public Accountants and Consultants

INDEPENDENT AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS

To the Board of Directors of
Keystone Area Education Agency 1
Elkader, Iowa

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Keystone Area Education Agency 1 as of and for the year ended June 30, 2016, and the related Notes to Financial Statements, which collectively comprise the Agency's basic financial statements listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles. This includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Agency's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of Keystone Area Education Agency 1 as of June 30, 2016, and the respective changes in its financial position for the year then ended in accordance with U.S. generally accepted accounting principles.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require Management's Discussion and Analysis, the Budgetary Comparison Information, the Schedule of the Agency's Proportionate Share of the Net Pension Liability, the Schedule of Agency Contributions and the Schedule of Funding Progress for the Retiree Health Plan on pages 5 through 10 and 32 through 37 be presented to supplement the basic financial statements. Such information, although not a required part of the basic financial statements, is required by the Governmental Accounting Standards Board which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with U.S. generally accepted auditing standards, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Keystone Area Education Agency 1's basic financial statements. We previously audited, in accordance with the standards referred to in the third paragraph of this report, the financial statements for the nine years ended June 30, 2015 (which are not presented herein) and expressed unmodified opinions on those financial statements. The supplementary information included in Schedules 1 through 5, including the Schedule of Expenditures of Federal Awards required by Title 2, U.S. Code of Federal Regulations, Part 200, Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards (Uniform Guidance) is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated November 7, 2016 on our consideration of Keystone Area Education Agency 1's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering Keystone Area Education Agency 1's internal control over financial reporting and compliance.

Schnurr & Company, LLP

Fort Dodge, Iowa
November 7, 2016

KEYSTONE AREA EDUCATION AGENCY 1

KEYSTONE AREA EDUCATION AGENCY 1

MANAGEMENT'S DISCUSSION AND ANALYSIS

Keystone Area Education Agency 1 provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the year ended June 30, 2016. We encourage readers to consider this information in conjunction with the Agency's financial statements, which follow.

2016 FINANCIAL HIGHLIGHTS

General Fund revenues in 2016 (FY16) were $23,221,278 while General Fund expenditures for FY16 were $23,099,429. This resulted in an increase in the Agency's General Fund balance from $1,850,965 in FY15 to $1,928,842 in FY16, a 4.2% increase from the prior year.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

- Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the Agency's financial activities.

- The Government-wide Financial Statements consist of a Statement of Net Position and a Statement of Activities. These provide information about the activities of Keystone Area Education Agency as a whole and present an overall view of the Agency's finances.

- The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the Agency's operations in more detail than the government-wide financial statements by providing information about the most significant funds.

- Notes to the Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

- Required Supplementary Information further explains and supports the financial statements with a comparison of the Agency's budget for the year, the Agency's proportionate share of the net position liability and related contributions, as well as presenting the Schedule of Funding Progress for the Retiree Health Plan.

- Supplementary Information provides detailed information about the non-major funds. In addition, the Schedule of Expenditures of Federal Awards provides details of various federal programs benefiting the Agency.

REPORTING THE AGENCY'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

The government-wide statements report information about the Agency as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Position includes all of the Agency's assets, deferred outflow of resources, liabilities and deferred inflow of resources, with the difference reported as net position. All of the current year revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid.

The two government-wide statements report the Agency's net position and how it has changed. Net position is one way to measure the Agency's financial health or financial position. Over time, increases or decreases in the Agency's net position is an indicator of whether financial position is improving or deteriorating. To assess the Agency's overall health, additional non-financial factors, such as changes in the Agency's property tax base and the condition of its facilities, need to be considered.

In the government-wide financial statements, the Agency's activities consist of the following category:

- *Governmental activities*: The Agency's basic services are included here, such as regular and special education instruction, student and instructional staff support services, and administration. Local school districts, federal and state aid finance most of these activities.

Fund Financial Statements

The fund financial statements provide detailed information about the Agency's funds, focusing on its most significant or "major" funds – not the Agency as a whole. Funds are accounting devices the Agency uses to keep track of specific sources of funding and spending on particular programs.

Some funds are required by state law or by bond covenants. The Agency establishes other funds to control and manage money for particular purposes, such as accounting for major construction projects or to show it is properly using certain revenues, such as federal grants.

The Agency has two kinds of funds:

- Governmental funds account for most of the Agency's basic services. These focus on how cash and other financial assets that can readily be converted to cash flow in and out and the balances left at year-end available for spending. Consequently, the governmental fund financial statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the Agency's programs. The Agency's governmental funds include: 1) the General Fund, 2) the Special Revenue Fund, and 3) the Capital Projects Fund.

  The required financial statements for governmental funds include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balances.

REPORTING THE AGENCY'S FINANCIAL ACTIVITIES (Continued)

Fund Financial Statements (Continued)

- Fiduciary funds are funds through which the Agency administers and accounts for certain activity as a fiscal agent. The Agency is responsible for ensuring the assets reported in the fiduciary funds are used only for their intended purposes and by those to whom the assets belong. The Agency excludes these activities from the government-wide financial statements because it cannot use these assets to finance its operations.

The required financial statement for fiduciary funds is a Statement of Fiduciary Assets and Liabilities.

Reconciliations between the government-wide financial statements and the governmental fund financial statements follow the governmental fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of financial position. Keystone Area Education Agency's net position at the end of fiscal year 2016 totaled approximately ($5.8) million compared to approximately ($6.1) million at the end of fiscal year 2015. The analysis that follows focuses on the net position and changes in net position.

Condensed Statement of Net Position

	Total Governmental Activities		Percentage Change (%)
	2015	**2016**	2015-2016
Current and other assets	$ 4,657,606	**$ 4,811,049**	3.3 %
Capital assets	2,958,138	**2,781,730**	(6.0)
Total assets	7,615,744	**7,592,779**	(0.3)
Deferred outflows of resources	1,721,277	**2,043,592**	18.7
Long-term obligations	9,115,811	**11,378,529**	24.8
Other liabilities	2,926,775	**2,984,684**	2.0
Total liabilities	12,042,586	**14,363,213**	19.3
Deferred inflows of resources	3,428,975	**1,122,222**	(67.3)
Net position:			
Net investment in capital assets	2,958,138	**2,781,730**	(6.0)
Unrestricted	(9,092,678)	**(8,630,794)**	5.1
Total net position	$ (6,134,540)	**$ (5,849,064)**	4.7 %

GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)

The Agency's total net position increased 4.7%, or approximately $285,000, from fiscal year 2015. The increase in unrestricted net position was primarily due to reduced expenses in instructional staff support services and plant operations and maintenance.

The following analysis details the changes in net position resulting from the Agency's activities.

	Changes in Net Position		
	Total Governmental Activities		Percentage Change (%)
	2015	**2016**	2015-2016
Revenues:			
Program revenues:			
Charges for service	$ 1,574,396	**$ 1,488,863**	(5.4) %
Operating grants and contributions	10,015,856	**9,985,713**	(0.3)
General revenues:			
Property taxes	6,237,514	**6,297,645**	1.0
State foundation aid	5,711,774	**5,743,367**	0.6
Unrestricted investment earnings	8,329	**7,978**	(4.2)
Total revenues	23,547,869	**23,523,566**	(0.1)
Program expenses:			
Instruction	259,632	**265,154**	2.1
Student support services	10,784,382	**10,753,029**	(0.3)
Instructional staff support services	7,187,178	**7,070,500**	(1.6)
General administration	2,932,638	**2,732,153**	(6.8)
Business administration	1,527,747	**1,780,168**	16.5
Plant operations and maintenance	706,219	**543,276**	(23.1)
Central and other support services	40,198	**297**	(99.3)
Community service operations	49,834	**49,541**	(0.6)
Facilities acquisition and construction	38,639	**43,972**	13.8
Total expenses	23,526,467	**23,238,090**	(1.2)
Increase in net position	21,402	**285,476**	1,233.9
Net position beginning of year	(6,155,942)	**(6,134,540)**	0.3
Net position end of year	$ (6,134,540)	**$ (5,849,064)**	4.7 %

Operating grants and contributions from local, state, and federal sources account for 42% of the total revenue. The Agency's expenses primarily relate to instruction and support services, which account for 78% of the total expenses.

INDIVIDUAL FUND ANALYSIS

As previously noted, Keystone Area Education Agency uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The Agency's governmental funds reported a combined fund balance that increased from $1,850,965 to $1,928,842.

Governmental Fund Highlights

FY '16 for Keystone Area Education Agency was highlighted by the following management strategies:

- maintenance of an appropriate ending balance in each of the three divisions (special education, educational services, and media)
- continuation of a conservative master staffing plan in an attempt to ensure appropriate balance among and between revenue, expenditures and member district needs.
- evolution of administrative FTE and associated expenditures following the exodus of five licensed management staff members (four to retirement; one to lateral placement)

Economic Factors and Next Year's Budget

FY '17 for Keystone Area Education Agency promises to be impacted by the following realities:

- expiration of the two-year financial agreement with AEA 267 following the merger of Sumner and Fredericksburg
- diminished state resources (2.25% state supplemental aid disproportionate to enrollment drop)
- a modest increase in federal special education resources (two years removed from sequestration)
- an increase in the AEA reduction from $15 million to $18.75 million at the end of the Iowa Legislature's 2016 session
- escalation of duties for special education to support the state's effort to close the achievement gap for students with individualized education programs (IEPs)
- escalation of duties for instructional services to support the state's Multi-Tiered System of Supports (MTSS) for early literacy, and implement the state's Teacher Leadership and Compensation (TLC) program.
- recognition of infrastructure needs that will require attention in the next three to five years.

BUDGETARY HIGHLIGHTS

The Agency's Board of Directors annually adopts a budget on a basis consistent with U.S. generally accepted accounting principles. Although the budget document presents functional disbursements by fund, the legal level of control is at the total expenditure level, not at the fund or fund type level. After required public notice and State Board review, the State Board either approves the budget or returns it with comments. Any unapproved budget must be resubmitted to the State Board for final approval. The budget may be amended during the year utilizing procedures prescribed by the State Board. Over the course of the year, the Agency amended its annual operating budget one time to reflect reduced revenue and expenditures. A schedule showing the original and final budget amounts compared to the Agency's actual financial activity is included in the required supplementary information section of this report.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2016, the Agency had invested approximately $2.8 million, net of accumulated depreciation, in a broad range of capital assets, including land, building, computers, media lending library and audio-visual equipment. This is a net decrease of approximately $176,000 from last year. This decrease was primarily due to the excess of depreciation and dispositions over additions made during the year.

Keystone Area Education Agency had depreciation expense of $423,777 in FY16 and total accumulated depreciation of approximately $7.3 million on June 30, 2016. More detailed information about capital assets is available in Note 3 to the financial statements.

CONTACTING THE AGENCY'S FINANCIAL MANAGEMENT

This financial report is designed to provide the Agency's citizens, taxpayers, customers, investors and creditors with a general overview of the Agency's finances and to demonstrate the Agency's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Business Office of Keystone Area Education Agency, 1400 2nd St N.W., Elkader, Iowa, 52043-9564.

BASIC FINANCIAL STATEMENTS

KEYSTONE AREA EDUCATION AGENCY 1 **Exhibit A**

STATEMENT OF NET POSITION
June 30, 2016

	Total Governmental Activities
Assets	
Cash	$ 3,897,408
Accounts receivable	160,828
Due from other governments	726,618
Inventories	22,439
Prepaid expenses	3,756
Capital assets, net of accumulated depreciation	2,781,730
Total assets	7,592,779
Deferred Outflows of Resources	
Pension related deferred outflows	2,043,592
Liabilities	
Accounts payable	274,639
Advances from grantors	28,429
Salaries and benefits payable	2,494,785
Accrued liabilities	43,163
Deposits payable	41,191
Long-term liabilities:	
Portion due or payable within one year:	
Compensated absences	74,477
Early retirement	28,000
Portion due or payable after one year:	
Compensated absences	182,388
Early retirement	108,000
Net pension liability	10,309,490
Net OPEB liability	778,651
Total liabilities	14,363,213
Deferred Inflows of Resources	
Pension related deferred inflows	1,122,222
Net Position	
Net investment in capital assets	2,781,730
Unrestricted	(8,630,794)
Total net position	$ (5,849,064)

See Notes to Financial Statements.

KEYSTONE AREA EDUCATION AGENCY 1

STATEMENT OF ACTIVITIES
Year Ended June 30, 2016

		Program Revenues	
	Expenses	**Charges for Services**	**Operating Grants and Contributions**
Functions/Programs:			
Governmental Activities:			
Instruction	$ 265,154	$ 9,748	$ 258,895
Student support services	10,753,029	641,683	8,428,178
Instructional staff support services	7,070,500	276,307	1,196,798
General administration	2,732,153	40,150	-
Business administration	1,780,168	515,528	-
Plant operations and maintenance	543,276	5,447	-
Central and other support services	297	-	-
Community service operations	49,541	-	101,842
Facilities acquisition and construction	43,972	-	-
Total governmental activities	$ 23,238,090	$ 1,488,863	$ 9,985,713
General Revenues:			
Property tax levied for general purposes			
State foundation aid			
Unrestricted investment earnings			
Total general revenues			
Change in net position			
Net position beginning of year			
Net position end of year			

See Notes to Financial Statements.

Exhibit B

Net (Expense) Revenue and Changes in Net Position	
Governmental Activities	**Total**
$ 3,489	$ 3,489
(1,683,168)	(1,683,168)
(5,597,395)	(5,597,395)
(2,692,003)	(2,692,003)
(1,264,640)	(1,264,640)
(537,829)	(537,829)
(297)	(297)
52,301	52,301
(43,972)	(43,972)
(11,763,514)	(11,763,514)
6,297,645	6,297,645
5,743,367	5,743,367
7,978	7,978
12,048,990	12,048,990
285,476	285,476
(6,134,540)	(6,134,540)
$ (5,849,064)	$ (5,849,064)

KEYSTONE AREA EDUCATION AGENCY 1 **Exhibit C**

BALANCE SHEET - GOVERNMENTAL FUNDS
June 30, 2016

		General		Nonmajor		Total
Assets						
Cash	$	3,834,778	$	62,630	$	3,897,408
Accounts receivable		160,828		-		160,828
Due from other governments		726,618		-		726,618
Inventories		22,439		-		22,439
Prepaid expenditures		3,756		-		3,756
Total assets	$	4,748,419	$	62,630	$	4,811,049
Liabilities and Fund Balances						
Liabilities:						
Accounts payable	$	272,964	$	1,675	$	274,639
Advances from grantors		-		28,429		28,429
Salaries and benefits payable		2,462,301		32,484		2,494,785
Accrued liabilities		43,121		42		43,163
Deposits payable		41,191		-		41,191
Total liabilities		2,819,577		62,630		2,882,207
Fund balances:						
Nonspendable:				-		
Inventories		22,439		-		22,439
Prepaid expenditures		3,756		-		3,756
Restricted for:						
Media materials		8,081		-		8,081
Educator quality		109,731		-		109,731
Unassigned		1,784,835		-		1,784,835
Total fund balances		1,928,842		-		1,928,842
Total liabilities and fund balances	$	4,748,419	$	62,630	$	4,811,049

See Notes to Financial Statements.

**RECONCILIATION OF THE BALANCE SHEET--
GOVERNMENTAL FUNDS TO THE STATEMENT OF NET POSITION
June 30, 2016**

Total governmental fund balances (page 13)		$ 1,928,842
Amounts reported for governmental activities in the Statement of Net Position are different because:		
Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the governmental funds. The cost of assets is $10,071,813 and the accumulated depreciation is $7,290,083.		2,781,730
Pension related deferred outflows of resources and deferred inflows of resources are not due and payable in the current year and, therefore, are not reported in the governmental funds, as follows:		
Deferred outflows of resources	$ 2,043,592	
Deferred inflows of resources	(1,122,222)	921,370
Long-term liabilities, including compensated absences, other postemployment benefits and net pension liability, are not due and payable in the current year and, therefore, are not reported in the governmental funds.		(11,481,006)
Net position of governmental activities (page 11)		$ (5,849,064)

See Notes to Financial Statements.

KEYSTONE AREA EDUCATION AGENCY 1 **Exhibit E**

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -- GOVERNMENTAL FUNDS
Year Ended June 30, 2016

	General	Nonmajor	Total
Revenues:			
Local sources	$ 7,789,040	$ -	$ 7,789,040
State sources	7,019,090	296,841	7,315,931
Federal sources	8,413,148	-	8,413,148
Total revenues	23,221,278	296,841	23,518,119
Expenditures:			
Current:			
Instruction	9,748	258,895	268,643
Student support services	10,933,724	-	10,933,724
Instructional staff support services	7,039,221	23	7,039,244
General administration	2,749,239	28,293	2,777,532
Business administration	1,719,404	54	1,719,458
Plant operations and maintenance	597,419	9,576	606,995
Central and other support services	297	-	297
Community service operations	50,377	-	50,377
Facilities acquisition and construction	-	43,972	43,972
Total expenditures	23,099,429	340,813	23,440,242
Excess (deficiency) of revenues over (under) expenditures	121,849	(43,972)	77,877
Other financing sources (uses):			
Transfers in	-	43,972	43,972
Transfers out	(43,972)	-	(43,972)
Total other financing sources (uses)	(43,972)	43,972	-
Change in fund balances	77,877	-	77,877
Fund balances, beginning of year	1,850,965	-	1,850,965
Fund balances, end of year	$ 1,928,842	$ -	$ 1,928,842

See Notes to Financial Statements.

KEYSTONE AREA EDUCATION AGENCY 1 **Exhibit F**

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -- GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
Year Ended June 30, 2016

Change in fund balances - total governmental funds (page 15)		$ 77,877
Amounts reported for governmental activities in the Statement of Activities are different because:		
Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the estimated useful lives of the assets. Depreciation expense exceeded capital outlay expenditures in the current year as follows:		
Expenditures for capital assets	$ 276,808	
Depreciation expense	(423,777)	(146,969)
In the Statement of Activities, the loss on the disposition of capital assets is reported, whereas in the governmental funds, the loss is not recognized.		(29,439)
The current year Agency IPERS contributions are reported as expenditures in the governmental funds, but is reported as a deferred outflow of resources in the Statement of Net Position.		1,270,036
Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds, as follows:		
Early retirement		64,000
Compensated absences		4,805
Pension expense		(866,152)
Other postemployment benefits		(88,682)
Change in net position of governmental activities (page 12)		$ 285,476

See Notes to Financial Statements.

KEYSTONE AREA EDUCATION AGENCY 1 **Exhibit G**

STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
Agency Fund
June 30, 2016

Assets		
Due from other governments	$	66,271
Total assets	$	66,271
Liabilities		
Due to other governments	$	2,112
Accrued expenses		64,159
Total liabilities		66,271
Net position	$	-

See Notes to Financial Statements.

Note 1. Summary of Significant Accounting Policies

Keystone Area Education Agency 1 is an intermediate school corporation established to identify and serve children who require special education. The Agency also provides media services and education support services. These programs and support services are provided to 23 school districts and private schools in an eight-county area. The Agency is governed by a Board of Directors whose members are elected on a non-partisan basis.

The Agency's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity:

For financial reporting purposes, Keystone Area Education Agency 1 has included all funds, organizations, agencies, boards, commissions and authorities. The Agency has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the Agency are such that exclusion would cause the Agency's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the Agency to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the Agency. The Agency has no component units that meet the Governmental Accounting Standards Board criteria.

B. Basis of Presentation:

Government-wide financial statements: The Statement of Net Position and the Statement of Activities report information on all of the activities of the Agency. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The Statement of Net Position presents the Agency's nonfiduciary assets, deferred outflows of resources, liabilities and deferred inflows of resources, with the difference reported as net position. Net position is reported in the following categories:

Net investment in capital assets consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt attributable to the acquisition, construction or improvement of those assets.

Restricted net position results when constraints placed on net position use are either externally imposed or are imposed by law through constitutional provisions or enabling legislation. Enabling legislation did not result in any restricted net position.

Unrestricted net position consists of net position not meeting the definition of the preceding categories. Unrestricted net position is often subject to constraints imposed by management which can be removed or modified.

Note 1. Summary of Significant Accounting Policies (Continued)

B. Basis of Presentation (continued):

Government-wide financial statements (continued): The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest restricted to meeting the operational or capital requirements of a particular function. Unrestricted interest income and other items not properly included among program revenues are reported as general revenues.

Fund financial statements: Separate financial statements are provided for governmental and proprietary funds. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The Agency reports the following major governmental fund:

The General Fund is the general operating fund of the Agency. All general revenues and other revenues not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenditures, including instructional, support and other costs.

The Agency also reports the following fiduciary fund:

The Agency Fund is used to account for assets held by the Agency as an agent for individuals, private organizations and other governments. The Agency Fund is custodial in nature, assets equal liabilities, and does not involve measurement of results of operations.

C. Measurement Focus and Basis of Accounting:

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current year or soon enough thereafter to pay liabilities of the current year. For this purpose, the Agency considers revenues to be available if they are collected within 60 days after year-end.

Intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current year are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the Agency.

Note 1. Summary of Significant Accounting Policies (Continued)

C. Measurement Focus and Basis of Accounting (continued):

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under the terms of grant agreements, the Agency funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net position available to finance the program. It is the Agency's policy to first apply cost-reimbursement grant resources to such programs and then general revenues.

When an expenditure is incurred in governmental funds which can be paid using either restricted or unrestricted resources, the Agency's policy is to pay the expenditure from restricted fund balance and then from, less-restrictive classifications – committed, assigned, and then unassigned fund balances.

D. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Fund Equity:

Cash: Cash includes amounts in demand deposits and money market funds.

Inventories: Inventories are stated at cost using the first-in, first-out method and consist of expendable supplies and materials. The cost of these items is recorded as an expenditure at the time of consumption.

Capital assets: Capital assets, which include property, furniture and equipment and intangibles acquired after July 1, 1980 are reported in the applicable governmental or business type activities columns in the government-wide Statement of Net Position. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repair that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the Agency as assets with initial, individual costs in excess of the following thresholds and estimated useful lives in excess of two years.

Asset Class	Amount
Land	No lower limit
Building	$ 50,000
Improvements other than buildings	5,000
Furniture and equipment	5,000
Library books	Aggregated annual purchases

Note 1. Summary of Significant Accounting Policies (Continued)

D. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Fund Equity (continued):

Capital assets (continued): Capital assets of the Agency are depreciated using the straight-line method of depreciation over the following estimated useful lives:

Asset Class	Estimated Useful Lives (In Years)
Buildings	25
Improvements other than buildings	20
Furniture and equipment	5-20
Library books	5

Deferred outflows of resources: Deferred outflows of resources represent a consumption of net position applicable to a future year(s) which will not be recognized as an outflow of resources (expense/ expenditure) until then. Deferred outflows of resources consist of unrecognized items not yet charged to pension expense and contributions from the Agency after the measurement date, but before the end of the Agency's reporting period.

Advances from grantors: Grant proceeds which have been received by the Agency but will be spent in a succeeding fiscal year.

Salaries and benefits payable: Payroll and related expenses for employees with annual contracts corresponding to the current fiscal year, which are payable in July and August, have been accrued as liabilities.

Compensated absences: Agency employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use or for payment upon termination, death or retirement. A liability has been recorded in the Statement of Net Position representing the Agency's commitment to fund non-current compensated absences. This liability has been computed based on rates of pay in effect at June 30, 2016. The compensated absences liability attributable to the governmental activities will be paid primarily by the General and Special Revenue Funds.

Long-term liabilities: In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column in the Statement of Net Position.

Pensions: For purposes of measuring the net pension liability, deferred outflows of resources, deferred inflows of resources related to pensions and pension expense, information about the fiduciary net position of the Iowa Public Employees' Retirement System (IPERS) and additions to/deductions from IPERS' fiduciary net position have been determined on the same basis as they are reported by IPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value. The net pension liability attributable to the governmental activities will be paid primarily by the General and Special Revenue Funds.

Note 1. Summary of Significant Accounting Policies (Continued)

D. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Fund Equity (continued):

Deferred Inflows of Resources: Deferred inflows of resources represents an acquisition of net position applicable to a future year(s) which will not be recognized as an inflow of resources (revenue) until that time. Although certain revenues are measurable, they are not available. Available means collected within the current year or expected to be collected soon enough thereafter to be used to pay liabilities of the current year. Deferred inflows of resources in the governmental fund financial statements represent the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current year or expected to be collected soon enough thereafter to be used to pay liabilities of the current year. Deferred inflows of resources consist of receivables not collected within sixty days after year end.

Deferred inflows of resources in the Statement of Net Position consist of the unamortized portion of the net difference between projected and actual earnings on IPERS' investments.

Fund Balances: In the governmental fund financial statements, fund balances are classified as follows:

Nonspendable Amounts which cannot be spent because they are in a nonspendable form or because they are legally or contractually required to be maintained intact.

Restricted Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors or state or federal laws or are imposed by law through constitutional provisions or enabling legislation.

Committed Amounts which can be used only for specific purposes determined pursuant to constraints formally imposed by the Board of Directors through resolution approved prior to year-end. Committed amounts cannot be used for any other purpose unless the Board of Directors removes or changes the specified use by taking the same action it employed to commit these amounts.

Unassigned Amounts not included in preceding classifications.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information.

F. Subsequent Events

Subsequent events have been evaluated through November 7, 2016, which is the date the financial statements were available to be issued. Events occurring after that date have not been evaluated to determine whether a change in the financial statements would be required.

Note 2. Cash

The Agency's deposits in banks at June 30, 2016 were entirely covered by federal depository insurance or by the state sinking fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The Agency is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Directors; prime eligible bankers' acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

Note 3. Capital Assets

Capital assets activity for the year ended June 30, 2016 is as follows:

	Balance Beginning of Year	**Additions**	**Deletions**	**Balance End of Year**
Governmental activities:				
Capital assets not being depreciated:				
Land	$ 343,373	**$ -**	**$ -**	**$ 343,373**
Total capital assets not being depreciated	343,373	**-**	**-**	**343,373**
Capital assets being depreciated:				
Buildings	5,400,659	**-**	**-**	**5,400,659**
Improvements other than buildings	93,000	**-**	**-**	**93,000**
Furniture and equipment	1,019,264	**94,830**	**47,606**	**1,066,488**
Library books and films	3,215,329	**181,978**	**229,014**	**3,168,293**
Total capital assets being depreciated	9,728,252	**276,808**	**276,620**	**9,728,440**
Less accumulated depreciation for:				
Buildings	3,784,069	**165,359**	**-**	**3,949,428**
Improvements other than buildings	83,700	**-**	**-**	**83,700**
Furniture and equipment	713,988	**78,161**	**41,068**	**751,081**
Library books and films	2,531,730	**180,257**	**206,113**	**2,505,874**
Total accumulated depreciation	7,113,487	**423,777**	**247,181**	**7,290,083**
Total capital asset being depreciated, net	2,614,765	**(146,969)**	**29,439**	**2,438,357**
Governmental activities capital assets, net	$ 2,958,138	**$ (146,969)**	**$ 29,439**	**$ 2,781,730**

Note 3. Capital Assets (Continued)

Depreciation expense was charged to the following functions:

Governmental activities:		
Student support services	$	1,887
Instructional staff support services		192,084
Business administration		42,517
Plant operations and maintenance		187,289
Total depreciation expense - governmental activities	$	423,777

Note 4. Long-term Liabilities

A summary of changes in long-term liabilities for the year ended June 30, 2016 is as follows:

	Balance Beginning of Year	Additions	Reductions	Balance End of Year	Due Within One Year
Early retirement obligation	$ 200,000	**$ 140,000**	**$ 204,000**	**$ 136,000**	$ 28,000
Compensated absences	261,670	**75,329**	**80,134**	**256,865**	74,477
Net pension liability	8,084,306	**2,225,184**	**-**	**10,309,490**	-
Net OPEB liability	689,969	**118,664**	**29,982**	**778,651**	-
	$ 9,235,945	**$ 2,559,177**	**$ 314,116**	**$ 11,481,006**	$ 102,477

Early Retirement Obligation: The Agency offered a voluntary early retirement plan to their employees during the year ended June 30, 2016. Eligible employees with a start date prior to July 1, 2012 or after July 1, 2012 must have completed at least eight and fifteen years of service, respectively, and must have reached the age of fifty-five on or before the effective date of the resignation/retirement. The application for early retirement is subject to approval by the Board of Directors.

Early retirement benefits total $20,000, which are to be distributed over five years at $4,000 per year. Early retirement benefits are paid annually in January, April, July or October with the month of payment being the one that most closely follows the month of the resigning/retiring employee’s last day of employment with the Agency. The Agency retains the right to expedite payment of the benefit if its fund balances allows.

At June 30, 2016, the Agency has obligations to seven participants with a total liability of $136,000. Early retirement expenditures for the year ended June 30, 2016 totaled $204,000.

Note 5. Operating Leases

The Agency leased various facilities within the area to house the different divisions of the Agency and copiers and other related equipment that have been classified as operating leases and accordingly, all rents are charged to expenditures as incurred. The leases expire on dates ranging from June 2016 through June 2020.

The following is a schedule by year of future minimum rental payments required under operating leases that have initial or remaining noncancelable lease terms in excess of one year as of June 30, 2016.

Year Ending June 30,	Amount
2017	$ 30,828
2018	12,300
2019	6,700
2020	3,900
	$ 53,728

Total rental expenditures for the year ended June 30, 2016 for all operating leases, except those with terms of a month or less that were not renewed, was $84,081.

Note 6. Pension Plan

Plan Description: IPERS membership is mandatory for employees of the Agency, except for those covered by another retirement system. Employees of the Agency are provided with pensions through a cost-sharing multiple employer defined benefit pension plan administered by the Iowa Public Employees' Retirement System (IPERS). IPERS issues a stand-alone financial report which is available to the public by mail at 7401 Register Drive, P.O. Box 9117, Des Moines, Iowa 50306-9117 or at www.ipers.org.

IPERS benefits are established under Iowa Code chapter 97B and the administrative rules thereunder. Chapter 97B and the administrative rules are the official plan documents. The following brief description is provided for general informational purposes only. Refer to the plan documents for more information.

Pension Benefits: A Regular member may retire at normal retirement age and receive monthly benefits without an early-retirement reduction. Normal retirement age is age 65, any time after reaching 62 with 20 or more years of covered employment, or when the member's years of service plus the member's age at the last birthday equals or exceeds 88, whichever comes first. These qualifications must be met on the member's first month of entitlement to benefits. Members cannot begin receiving retirement benefits before age 55. The formula used to calculate a Regular member's monthly IPERS benefit includes:

- A multiplier based on years of service.
- The member's highest five-year average salary, except members with service before June 30, 2012, will use the highest three-year average salary as of that date if it is greater than the highest five-year average salary.

Note 6. Pension Plan (Continued)

Pension Benefits (continued): If a member retires before normal retirement age, the member's monthly retirement benefit will be permanently reduced by an early-retirement reduction. The early-retirement reduction is calculated differently for service earned before and after July 1, 2012. For service earned before July 1, 2012, the reduction is 0.25% for each month that the member receives benefits before the member's earliest normal retirement age. For service earned on or after July 1, 2012, the reduction is 0.50% for each month that the member receives benefits before age 65.

Generally, once a member selects a benefit option, a monthly benefit is calculated and remains the same for the rest of the member's lifetime. However, to combat the effects of inflation, retirees who began receiving benefits prior to July 1990 receive a guaranteed dividend with their regular November benefit payments.

Disability and Death Benefits: A vested member who is awarded federal Social Security disability or Railroad Retirement disability benefits is eligible to claim IPERS benefits regardless of age. Disability benefits are not reduced for early retirement. If a member dies before retirement, the member's beneficiary will receive a lifetime annuity or a lump-sum payment equal to the present actuarial value of the member's accrued benefit or calculated with a set formula, whichever is greater. When a member dies after retirement, death benefits depend on the benefit option the member selected at retirement.

Contributions: Contribution rates are established by IPERS following the annual actuarial valuation, which applies IPERS' Contribution Rate Funding Policy and Actuarial Amortization Method. State statute limits the amount rates can increase or decrease each year to 1 percentage point. IPERS Contribution Rate Funding Policy requires that the actuarial contribution rate be determined using the "entry age normal" actuarial cost method and the actuarial assumptions and methods approved by the IPERS Investment Board. The actuarial contribution rate covers normal cost plus the unfunded actuarial liability payment based on a 30-year amortization period. The payment to amortize the unfunded actuarial liability is determined as level percentage of payroll, based on the Actuarial Amortization Method adopted by the Investment Board.

In fiscal year 2016, pursuant to the required rate, Regular members contributed 5.95% of covered payroll and the Agency contributed 8.93% of covered payroll for a total rate of 14.88%.

The Agency's contributions to IPERS for the year ended June 30, 2016 were $1,270,036.

Net Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions: At June 30, 2016, the Agency reports a liability of $10,309,490 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Agency's proportion of the net pension liability was based on the Agency's share of contributions to IPERS relative to the contributions of all IPERS participating employers. At June 30, 2015, the Agency's collective proportion was 0.208674%, which was an increase of 0.004829% from its proportion measured as of June 30, 2014.

Note 6. Pension Plan (Continued)

Net Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (continued): For the year ended June 30, 2016, the Agency recognized pension expense of $866,152. At June 30, 2016, the Agency reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 155,763	$ -
Changes in assumptions	283,846	-
Net difference between projected and actual earnings on IPERS' investments	-	858,020
Changes in proportion and differences between Agency contributions and the Agency's proportionate share of contributions	333,947	264,202
Agency contributions subsequent to the measurement date	1,270,036	-
	$ 2,043,592	$ 1,122,222

$1,270,036 reported as deferred outflows of resources related to pensions resulting from Agency contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30,	Total
2017	$ (288,701)
2018	(288,701)
2019	(288,701)
2020	491,815
2021	25,622
	$ (348,666)

There were no non-employer contributing entities at IPERS.

Note 6. Pension Plan (Continued)

Actuarial Assumptions: The total pension liability in the June 30, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Rate of inflation (effective June 30, 2014)	3.00% per annum
Rates of salary increase (effective June 30, 2010)	4.00 to 17.00% average, including inflation. Rates vary by membership group.
Long-term investment rate of return (effective June 30, 1996)	7.50% compounded annually, net of investment expense, including inflation.
Wage growth (effective June 30, 1990)	4.00% per anum, based on 3.00% inflation and 1.00% real wage inflation.

The actuarial assumptions used in the June 30, 2015 valuation were based on the results of actuarial experience studies with dates corresponding to those listed above.

Mortality rates were based on the RP-2000 Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on Scale AA.

The long-term expected rate of return on IPERS' investments was determined using a building-block method in which best-estimate ranges of expected future real rates (expected returns, net of investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Asset Allocation	Long-Term Expected Real Rate of Return
Core plus fixed income	28 %	2.04 %
Domestic equity	24	6.29
International equity	16	6.75
Private equity/debt	11	11.32
Real estate	8	3.48
Credit opportunities	5	3.63
U. S. TIPS	5	1.91
Other real assets	2	6.24
Cash	1	(0.71)
	100 %	

Note 6. Pension Plan (Continued)

Discount Rate: The discount rate used to measure the total pension liability was 7.50%. The projection of cash flows used to determine the discount rate assumed employee contributions will be made at the contractually required rate and contributions from the Agency will be made at contractually required rates, actuarially determined. Based on those assumptions, the IPERS' fiduciary net position was projected to be available to make all projected future benefit payments to current active and inactive employees. Therefore, the long-term expected rate of return on IPERS' investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Agency's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate: The following presents the Agency's proportionate share of the net pension liability calculated using the discount rate of 7.50%, as well as what the Agency's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1% lower (6.50%) or 1% higher (8.50%) than the current rate.

	1% Decrease (6.5%)	Discount Rate (7.5%)	1% Increase (8.5%)
Agency's proportionate share of the net pension liability	$18,050,062	$10,309,490	$ 3,775,892

IPERS Fiduciary Net Position: Detailed information about IPERS' fiduciary net position is available in the separately issued IPERS financial report which is available on IPERS' website at www.ipers.org

Payables to IPERS: At June 30, 2016, the Agency reported payables to the defined benefit pension plan of $106,364 for legally required Agency contributions and $70,870 for legally required employee contributions withheld from employee wages but not yet remitted to IPERS.

Note 7. Other Postemployment Benefits (OPEB)

Plan Description: The Agency operates a single-employer retiree benefit plan that provides medical and prescription drug benefits for employees, retirees and their spouses. There are 226 active and 30 retired members in the plan. Participants must be age 55 or older at retirement.

The medical and prescription drug benefits are provided through a fully insured plan with Wellmark. Retirees under age 65 pay the same premium for the medical/prescription drug benefits as active employees, which results in an implicit rate subsidy and an OPEB liability.

Funding Policy: The contribution requirements of plan members are established and may be amended by the Agency. The Agency currently finances the retiree benefit plan on a pay-as-you-go basis.

Note 7. Other Postemployment Benefits (OPEB) (Continued)

Annual OPEB Cost and Net OPEB Obligation: The Agency's annual OPEB cost is calculated based on the annual required contribution (ARC) of the Agency, an amount actuarially determined in accordance with GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years.

The following table shows the components of the Agency's annual OPEB cost for the year ended June 30, 2016, the amount actually contributed to the plan and changes in the Agency's net OPEB obligation:

Annual required contribution	$ 165,219
Interest on net OPEB obligation	17,249
Other adjustments to ARC	(63,804)
Annual OPEB cost	118,664
Contributions made	(29,982)
Increase in net OPEB obligation	88,682
Net OPEB obligation beginning of year	689,969
Net OPEB obligation end of year	$ 778,651

For calculation of the net OPEB obligation, the actuary has set the transition day as July 1, 2008. The end of year net OPEB obligation was calculated by the actuary as the cumulative difference between the actuarially determined funding requirements and the actual contributions for the year ended June 30, 2016.

For the year ended June 30, 2016, the Agency contributed $29,982 to the medical plan. Plan members eligible for benefits contributed $415,609 to the plan.

The Agency's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation are summarized as follows:

Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2016	**$ 118,664**	**25.27%**	**$ 778,651**
June 30, 2015	122,512	26.08	689,969
June 30, 2014	137,908	18.30	599,403

Funded Status and Funding Progress: As of July 1, 2014, the most recent actuarial valuation date for the period July 1, 2015 through June 30, 2016, the actuarial accrued liability was $805 thousand, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of $805 thousand. The covered payroll (annual payroll of active employees covered by the plan) was approximately $13,906,000, and the ratio of the UAAL to covered payroll was 5.79%. As of June 30, 2016, there were no trust fund assets.

Note 7. Other Postemployment Benefits (OPEB) (Continued)

Actuarial Methods and Assumptions: Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumption about future employment, mortality and the health care cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress for the Retiree Health Plan, presented as Required Supplementary Information in the section following the Notes to Financial Statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the plan as understood by the employer and the plan members and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

As of the July 1, 2014 actuarial valuation date, the frozen entry age actuarial cost method was used. The actuarial assumptions include a 2.5% discount rate based on the Agency's funding policy. The projected annual medical trend rate and ultimate medical trend rate is 6%. An inflation rate of 0% is assumed for the purpose of this computation.

Mortality rates are from the 94 Group Annuity Mortality Table, applied on a gender-specific basis. Annual retirement and termination probabilities were developed from the retirement probabilities from the IPERS Actuarial report as of June 30, 2014 and applying the termination factors used in the IPERS Actuarial Report as of June 30, 2014.

Note 8. Risk Management

The Agency is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The Agency assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Note 9. Deficit Balance

The Agency had a governmental activities deficit net position balance of $5,849,064 at June 30, 2016, primarily due to the net pension liability.

REQUIRED SUPPLEMENTARY INFORMATION

KEYSTONE AREA EDUCATION AGENCY 1

SCHEDULE OF REVENUES, EXPENDITURES/EXPENSES AND CHANGES IN BALANCES -- BUDGET AND ACTUAL ALL GOVERNMENTAL FUNDS
Required Supplementary Information

Year ended June 30, 2016

	Total Governmental Fund Types Actual	Budget Original	Budget Final	Final to Actual Variance
Revenues:				
Local sources	$ 7,789,040	$ 7,893,738	$ 7,985,479	$ (196,439)
State sources	7,315,931	8,242,755	7,322,395	(6,464)
Federal sources	8,413,148	8,435,612	8,506,819	(93,671)
Total revenues	23,518,119	24,572,105	23,814,693	(296,574)
Expenditures/Expenses:				
Current:				
Instruction	268,643	292,461	293,206	24,563
Student support services	10,933,724	11,366,702	11,081,644	147,920
Instructional staff support services	7,039,244	7,544,355	7,661,894	622,650
General administration	2,777,532	2,996,792	2,843,738	66,206
Business administration	1,719,458	1,680,380	1,786,762	67,304
Plant operations and maintenance	606,995	853,223	799,275	192,280
Central and other support services	297	500	500	203
Community service operations	50,377	58,510	52,383	2,006
Facilities acquisition and construction	43,972	-	52,680	8,708
Total expenditures/ expenses	23,440,242	24,792,923	24,572,082	1,131,840
Excess (deficiency) of revenues over (under) expenditures/ expenses	77,877	(220,818)	(757,389)	835,266
Balance, beginning of year	1,850,965	1,206,474	1,850,965	-
Balance, end of year	$ 1,928,842	$ 985,656	$ 1,093,576	$ 835,266

See accompanying Independent Auditor's Report.

KEYSTONE AREA EDUCATION AGENCY 1
June 30, 2016

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY REPORTING

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

The Agency's Board of Directors annually prepares a budget on a basis consistent with U.S. generally accepted accounting principles for all funds except Agency Funds. Although the budget document presents function expenditures/expenses by fund, the legal level of control is at the total expenditure/expense level, not by fund. After required public notice and hearing in accordance with the Code of Iowa, the Board submits its budget to the State Board of Education. The State Board reviews the proposed budget and either grants approval or returns it without approval with comments. Any unapproved budget must be resubmitted to the State Board for final approval. The budget may be amended during the year utilizing procedures prescribed by the State Board.

For the year ended June 30, 2016, the Agency's expenditures/expenses did not exceed the approved budget.

KEYSTONE AREA EDUCATION AGENCY 1

SCHEDULE OF THE AGENCY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
Iowa Public Employees' Retirement System
For the Last Two Years*
(In Thousands)

Required Supplementary Information

	2016	2015
Agency's proportion of the net pension liability	**0.208674%**	0.203845%
Agency's proportionate share of the net pension liability	**$ 10,309**	$ 8,084
Agency's covered-employee payroll	**$ 14,296**	$ 13,339
Agency's proportionate share of the net pension liability as a percentage of its covered-employee payroll	**72.11%**	60.60%
IPERS' net position as a percentage of the total pension liability	**85.19%**	87.61%

* In accordance with GASB Statement No. 68, the amounts presented for each fiscal year were determined as of June 30 of the preceding fiscal year.

See accompanying Independent Auditor's Report.

KEYSTONE AREA EDUCATION AGENCY 1

SCHEDULE OF AGENCY CONTRIBUTIONS
Iowa Public Employees' Retirement System
Last Ten Fiscal Years
(In Thousands)

Required Supplementary Information

	2016	2015	2014
Statutorily required contribution	**$ 1,270**	$ 1,276	$ 1,191
Contributions in relation to the statutorily required contribution	**(1,270)**	(1,276)	(1,191)
Contribution deficiency (excess)	**$ -**	$ -	$ -
Agency's covered-employee payroll	**$ 14,222**	$ 14,296	$ 13,339
Contributions as a percentage of covered-employee payroll	**8.93%**	8.93%	8.93%

See accompanying Independent Auditor's Report.

	2013		2012		2011		2010		2009		2008		2007
$	1,162	$	1,087	$	932	$	922	$	867	$	771	$	666
	(1,162)		(1,087)		(932)		(922)		(867)		(771)		(666)
$	-	$	-	$	-	$	-	$	-	$	-	$	-
$	13,405	$	13,476	$	13,413	$	13,858	$	13,659	$	12,748	$	11,575
	8.67%		8.07%		6.95%		6.65%		6.35%		6.05%		5.75%

Changes of benefit terms:

Legislation enacted in 2010 modified benefit terms for Regular members. The definition of final average salary changed from the highest three to the highest five years of covered wages. The vesting requirement changed from four years of service to seven years. The early retirement reduction increased from 3% per year measured from the member's first unreduced retirement age to a 6% reduction for each year of retirement before age 65.

Legislative action in 2008 transferred four groups – emergency medical service providers, county jailers, county attorney investigators, and National Guard installation security officers – from Regular membership to the protection occupation group for future service only.

Changes of assumptions:

The 2014 valuation implemented the following refinements as a result of a quadrennial experience study:

- Decreased the inflation assumption from 3.25% to 3.00%.
- Decreased the assumed rate of interest on member accounts from 4.00% to 3.75% per year.
- Adjusted male mortality rates for retirees in the Regular membership group.
- Moved from an open 30-year amortization period to a closed 30-year amortization period for the UAL beginning June 30, 2014. Each year thereafter, changes in the UAL from plan experience will be amortized on a separate closed 20-year period.

The 2010 valuation implemented the following refinements as a result of a quadrennial experience study:

- Adjusted retiree mortality assumptions.
- Modified retirement rates to reflect fewer retirements.
- Lowered disability rates at most ages.
- Lowered employment termination rates.
- Generally increased the probability of terminating members receiving a deferred retirement benefit.
- Modified salary increase assumptions based on various service duration.

The 2007 valuation adjusted the application of the entry age normal cost method to better match projected contributions to the projected salary stream in the future years. It also included the one-year lag between the valuation date and the effective date of the annual actuarial contribution rate in the calculation of the UAL amortization payments.

KEYSTONE AREA EDUCATION AGENCY 1

Schedule of Funding Progress for the Retiree Health Plan (In Thousands)

Required Supplementary Information

Year Ended June 30,	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a)/c)
2009	7/1/2008	$ -	$ 1,023	$ 1,023	0.00%	$ 13,459	7.60%
2010	7/1/2008	-	1,023	1,023	0.00	14,047	7.28
2011	7/1/2010	-	1,039	1,039	0.00	13,533	7.68
2012	7/1/2010	-	1,039	1,039	0.00	13,635	7.62
2013	7/1/2012	-	749	749	0.00	13,198	5.68
2014	7/1/2012	-	749	749	0.00	13,222	5.67
2015	7/1/2014	-	805	805	0.00	14,176	5.68
2016	**7/1/2014**	**-**	**805**	**805**	**0.00**	**13,906**	**5.79**

See Note 7 in the accompanying Notes to Financial Statements for the plan description, funding policy, annual OPEB Cost, net OPEB obligation, funded status and funding progress.

See accompanying Independent Auditor's Report.

KEYSTONE AREA EDUCATION AGENCY 1

KEYSTONE AREA EDUCATION AGENCY 1 **Schedule 1**

COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
June 30, 2016

	Special Revenue Juvenile Home	Capital Projects	Total
Assets			
Current Assets:			
Cash	$ 62,630	$ -	$ 62,630
Total assets	$ 62,630	$ -	$ 62,630
Liabilities and Fund Balances			
Liabilities:			
Accounts payable	$ 1,675	$ -	$ 1,675
Advances from grantors	28,429	-	28,429
Salaries and benefits payable	32,484	-	32,484
Accrued liabilities	42	-	42
Total liabilities	62,630	-	62,630
Fund balances:			
Restricted for specific special purposes	-	-	-
Total liabilities and fund balances	$ 62,630	$ -	$ 62,630

See accompanying Independent Auditor's Report.

KEYSTONE AREA EDUCATION AGENCY 1 **Schedule 2**

COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES NONMAJOR GOVERNMENTAL FUNDS
Year Ended June 30, 2016

	Special Revenue Juvenile Home	Capital Projects	Total
Revenues:			
State sources	$ 296,841	$ -	$ 296,841
Total revenues	296,841	-	296,841
Expenditures:			
Current:			
Instruction	258,895	-	258,895
Instructional staff support services	23	-	23
General administration	28,293	-	28,293
Business administration	54	-	54
Plant operations and maintenance	9,576	-	9,576
Facilities acquisition and construction	-	43,972	43,972
Total expenditures	296,841	43,972	340,813
Excess (Deficiency) of revenues over (under) expenditures	-	(43,972)	(43,972)
Other financing sources:			
Transfers in	-	43,972	43,972
	-	43,972	43,972
Change in fund balance	-	-	-
Fund balances beginning of year	-	-	-
Fund balances end of year	$ -	$ -	$ -

See accompanying Independent Auditor's Report.

KEYSTONE AREA EDUCATION AGENCY 1

KEYSTONE AREA EDUCATION AGENCY 1 **Schedule 3**

SCHEDULE OF CHANGES IN FIDUCIARY ASSETS AND LIABILITIES -
Agency Fund
Year Ended June 30, 2016

	Balance Beginning of Year	Additions	Deductions	Balance End of Year
Assets				
Cash	$ 2,000	$ -	$ 2,000	$ -
Due from other governments	-	66,271	-	66,271
Total assets	$ 2,000	$ 66,271	$ 2,000	$ 66,271
Liabilities				
Due to other governments	$ 2,000	$ 2,112	$ 2,000	$ 2,112
Accrued expenses	-	64,159	-	64,159
Total liabilities	$ 2,000	$ 66,271	$ 2,000	$ 66,271

See accompanying Independent Auditor's Report.

KEYSTONE AREA EDUCATION AGENCY 1

SCHEDULE OF REVENUES BY SOURCE
AND EXPENDITURES BY FUNCTION
ALL GOVERNMENTAL FUND TYPES
For the Last Ten Years

	2016	2015	2014	2013
Revenues:				
Local	**$ 7,789,040**	$ 7,820,239	$ 7,347,954	$ 7,469,486
State	**7,315,931**	7,292,490	7,035,463	6,601,924
Federal	**8,413,148**	8,435,140	7,868,963	8,389,797
Total	**$ 23,518,119**	$ 23,547,869	$ 22,252,380	$ 22,461,207
Expenditures:				
Current:				
Instruction	**$ 268,643**	$ 268,148	$ 244,739	$ 234,954
Student support services	**10,933,724**	11,083,002	10,621,094	11,121,209
Instructional staff support	**7,039,244**	7,162,924	6,601,076	6,453,207
General administration	**2,777,532**	3,026,302	3,033,627	3,139,356
Business administration	**1,719,458**	1,534,591	1,478,787	1,400,980
Plant operations and maintenance	**606,995**	726,250	846,834	815,945
Central and other support services	**297**	198	285	117
Community service operations	**50,377**	51,029	50,108	45,898
Facilities acquisition and construction	**43,972**	38,639	-	-
Debt service	-	-	-	2,233,813
Total expenditures	**$ 23,440,242**	$ 23,891,083	$ 22,876,550	$ 25,445,479

Modified Accrual Basis

Years Ended June 30,					
2012	2011	2010	2009	2008	2007
$ 7,680,170	$ 7,505,889	$ 7,418,063	$ 7,176,257	$ 7,027,608	$ 6,699,556
6,471,382	7,844,686	6,889,970	7,639,313	6,864,814	5,721,745
9,473,925	9,186,771	14,253,568	9,334,486	8,366,891	8,719,971
$ 23,625,477	$ 24,537,346	$ 28,561,601	$ 24,150,056	$ 22,259,313	$ 21,141,272
$ 280,407	$ 254,436	$ 166,251	$ 254,911	$ 638,042	$ 377,243
10,532,497	10,264,301	14,506,428	11,588,519	9,783,157	9,337,230
6,613,163	6,704,588	7,067,820	6,575,140	5,934,985	5,720,022
3,143,055	3,007,220	2,999,018	2,969,745	2,985,714	2,872,640
1,280,809	1,447,176	1,574,380	1,286,058	1,383,903	1,294,592
659,630	663,046	745,214	757,033	726,456	725,009
232	847	586	199	625	576
45,534	41,880	94,240	58,770	83,388	87,292
-	-	-	-	-	-
460,672	460,733	444,654	432,385	413,950	462,950
$ 23,015,999	$ 22,844,227	$ 27,598,591	$ 23,922,760	$ 21,950,220	$ 20,877,554

KEYSTONE AREA EDUCATION AGENCY 1 **Schedule 5**

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2016

Project Title	CFDA Number	Pass-through Grantor's Number	Expenditures
Indirect:			
U. S. Department of Education:			
Passed-through Iowa Department of Education:			
Special Education Cluster (IDEA):			
Special Education - Grants to States:	84.027		
IDEA Part B		151601	$ 6,210,557
IDEA Part B - LEA Flow-Through		6KB2-01	1,491,071
Parent-Educator Connection		5K74-01	101,842
Summer Special Education Symposium		043416	428
Iowa Core Significant Disabilities Team		046515	1,463
SLP Leadership Group		048515	12,675
AEA Leadership Work Teams		046916	1,042
			7,819,078
Special Education - Preschool Grants:	84.173		
IDEA Part B Section 619		15619-01	239,412
Early Childhood Professional Dev. - Section 619		Q16-001	16,448
			255,860
			8,074,938
Special Education - Grants for Infants and Families:			
IDEA - Part C	84.181	5KC3-01	209,706
Department of Education Grants:			
Title III - English Language Acquisition	84.365	16ELA-01	94,550
U. S. Department of Human Services, Medicaid:			
Medical Assistance Program:			
Medicaid Direct Service Reimbursement:	93.778		
Medicaid Direct Services, Part B			$ 18,966
Medicaid Direct Services, Part C			14,988
			33,954
			$ 8,413,148

(Continued on next page)

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)

Basis of Presentation: The accompanying Schedule of Expenditures of Federal Awards (Schedule) includes the federal award activity of Keystone Area Education Agency 1 under programs of the federal government for the year ended June 30, 2016. The information in this Schedule is presented in accordance with the requirements of Title 2, U.S. Code of Federal Regulations, Part 200, Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of Keystone Area Education Agency 1, it is not intended to and does not present the financial position or changes in financial position of Keystone Area Education Agency 1.

Summary of Significant Accounting Policies: Expenditures reported in the Schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following, as applicable, either the cost principles in OMB Circular A-87, Cost Principles for State, Local and Indian Tribal Governments, or the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Keystone Area Education Agency 1 has elected not to use the 10% de minimis indirect cost rate as allowed under the Uniform Guidance.

See accompanying Independent Auditor's Report.

**INDEPENDENT AUDITOR'S REPORT
ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN
AUDIT OF THE FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

KEYSTONE AREA EDUCATION AGENCY 1

SCHNURR & COMPANY, LLP
Certified Public Accountants and Consultants

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Board of Directors
Keystone Area Education Agency 1
Elkader, Iowa

We have audited in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Keystone Area Education Agency 1 as of and for the year ended June 30, 2016, and the related Notes to Financial Statements, which collectively comprise the Agency's basic financial statements, and have issued our report thereon dated November 7, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Keystone Area Education Agency 1's internal control over financial reporting to determine the audit procedures appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Keystone Area Education Agency 1's internal control. Accordingly, we do not express an opinion on the effectiveness of Keystone Area Education Agency 1's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the Agency's financial statements will not be prevented or detected and corrected on a timely basis.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Keystone Area Education Agency 1's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards.

Comments involving statutory and other legal matters about Keystone Area Education Agency 1's operations for the year ended June 30, 2016 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of Keystone Area Education Agency 1. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Agency's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Agency's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Schnurr & Company, LLP

Fort Dodge, Iowa
November 7, 2016

INDEPENDENT AUDITOR'S REPORT
ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE
REQUIRED BY THE UNIFORM GUIDANCE

KEYSTONE AREA EDUCATION AGENCY 1

SCHNURR & COMPANY, LLP
Certified Public Accountants and Consultants

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

Board of Directors of
Keystone Area Education Agency 1
Elkader, Iowa

Report on Compliance for Each Major Federal Program

We have audited Keystone Area Education Agency 1's compliance with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Compliance Supplement that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2016. Keystone Area Education Agency 1's major federal programs are identified in Part I of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts and grant agreements applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for Keystone Area Education Agency 1's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and the audit requirements of Title 2, U.S. Code of Federal Regulations, Part 200, Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Keystone Area Education Agency 1's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Keystone Area Education Agency 1's compliance.

Opinion on Each Major Federal Program

In our opinion, Keystone Area Education Agency 1 complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2016.

Report on Internal Control Over Compliance

The management of Keystone Area Education Agency 1 is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Keystone Area Education Agency 1's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Keystone Area Education Agency 1's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance such that there is a reasonable possibility material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected and corrected on a timely basis.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Schnurr & Company, LLP

Fort Dodge, Iowa
November 7, 2016

KEYSTONE AREA EDUCATION AGENCY 1

Schedule of Findings and Questioned Costs
Year Ended June 30, 2016

<u>Part I: Summary of the Independent Auditor's Results</u>

(a) Unmodified opinions were issued on the financial statements.

(b) No significant deficiencies or material weaknesses in internal control over financial reporting were disclosed.

(c) The audit did not disclose any noncompliance that is material to the financial statements.

(d) No significant deficiencies or material weaknesses in internal control over major programs were disclosed.

(e) An unmodified opinion was issued on compliance with requirements applicable to each major program.

(f) The audit did not disclose any audit findings that are required to be reported in accordance with the Uniform Guidance, Section 200.515.

(g) The major programs were:

Special Education Cluster (IDEA):

CFDA Number 84.027 – Special Education – Grants to States
CFDA Number 84.173 – Special Education – Preschool Grants

(h) The dollar threshold used to distinguish between Type A and Type B programs was $750,000.

(i) Keystone Area Education Agency 1 qualified as a low-risk auditee.

<u>Part II: Findings Related to the Financial Statements:</u>

Instances of Non-Compliance:

No matters were noted.

Internal Control Deficiencies:

No matters were noted.

<u>Part III: Findings and Questioned Costs For Federal Awards:</u>

Instances of Non-Compliance:

No matters were noted.

Internal Control Deficiencies:

No matters were noted.

Part IV: Other Findings Related to Required Statutory Reporting:

IV-A-16 Certified Budget: Expenditures during the year ended June 30, 2016 did not exceed the amount budgeted.

IV-B-16 Questionable Expenditures: No expenditures that we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted.

IV-C-16 Travel Expense: No expenditures of Agency money for travel expenses of spouses of Agency officials or employees were noted.

IV-D-16 Business Transactions: No business transactions between the Agency and Agency officials or employees were noted.

IV-E-16 Bond Coverage: Surety bond coverage of Agency officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure the coverage is adequate for current operations.

IV-F-16 Board Minutes: No transactions were found that we believe should have been approved in the Board minutes but were not.

IV-G-16 Deposits and Investments: No instances of non-compliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the Agency's investment policy were noted.

IV-H-16 Certified Annual Report: The Certified Annual Report was certified timely to the Iowa Department of Education.

IV-I-16 Categorical Funding: No instances of categorical funding being used to supplant rather than supplement other funds were noted.